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I. PURPOSE

In order to ensure consistency and conformity with FFIEC Uniform Credit Classification Guidelines, the Asset Classification Detail should be prepared using the following classification guidelines as specified in the [Uniform Retail Credit Classification and Account Management Policy](#).

II. PROCEDURES:

The following details the review process for each asset included in the Asset Classification Detail workpapers.

Retail Credits


- Open and Closed End Retail Credits are classified as Substandard at 90 days delinquent.
- Closed End Retail Credits are classified as Loss at 120 days delinquent.
- Open End Retail Credits are classified as Loss at 180 days delinquent.
- Loans with non-real estate collateral may be written down to collateral value less cost to sell, if repossession of collateral is assured and in process.

Real Estate Loans

- Real Estate Loans 90 days delinquent with LTV greater than 60% are classified substandard.
- Home Equity Loans where the institution does not have the senior mortgage should be classified as substandard at 90 days delinquent regardless of LTV (even if less than 60%).
- For Open and Closed End Real Estate Loans, a current assessment of collateral value should be made no later than 180-day delinquent. Any balance outstanding in excess of the property value, less cost to sell, should be classified Loss and charged off.

Bankruptcy

- Loans in bankruptcy should be classified Loss and charged off within 60 days of receipt of notification of filing from the bankruptcy court or the time frames specified in the classification policy, whichever is shorter, unless the institution can clearly demonstrate, and document repayment is likely to occur. Loans with collateral may be written down to fair value of collateral. Any loan balance not charged off should be classified as Substandard until the borrower re-establishes the ability and willingness to repay for a period of at least six months.


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Other Loan Losses

- Fraudulent loans should be classified as Loss and charged off no later than 90 days of discovery or within the time frames specified in the classification policy, whichever are shorter.
- Loans of deceased persons should be classified as Loss and charged off when the loss is determined or within the time frames specified in the classification policy, whichever are shorter.

Classification Procedures

- Unsecured retail credits should be classified by their delinquency in accordance with [FFIEC guidelines](#). Examiners do not need to individually discuss unsecured loans with credit union personnel for classification purposes unless there is a specific reason to warrant it. Loans can be grouped into one line item by category, as appropriate.
- Secured retail credits classified as Substandard do not need to be individually discussed with credit union personnel for classification purposes unless there is a specific reason to warrant it. Loans can be grouped into one line by category, as appropriate.
- Secured retail credits classified as Loss can be written down to the value of the collateral, less cost to sell, if repossession of collateral is assured and in process. If credit union personnel are unable to provide adequate documentation to demonstrate repossession is assured, or unable to provide adequate documentation of collateral value, the loan should be classified as Loss.
- If an institution can clearly document a past due loan is well secured and in process of collection, such that collection will occur regardless of delinquency status, then the loan does not need to be classified. This generally applies to loans which are well-secured and collection efforts or legal proceedings are expected to result in a recovery of the loan balance or bring the loan current within the next 90 days.
- It has been common practice to classify loans 60 to less than 90 days delinquent as Substandard based only their delinquent status; this practice does not comply with [FFIEC Guidelines](#). Loans less than 90 days delinquent should be classified Substandard and/or Loss only in circumstances when risk factors (other than delinquency status) are substantiated which warrant the classification. Comments supporting the classification should be included on the Asset Classification spreadsheet.

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- [FFIEC Uniform Credit Classification Guidelines](#) do not preclude examiners from classifying individual loans which exhibit signs of credit weaknesses, regardless of delinquency status. Examiners should clearly document comments supporting the classification on the Asset Classification spreadsheet.
- [The Uniform Retail Credit Classification and Account Management Policy](#) does not apply to OREOs or MBLs; examiner judgment and standard examination procedures for identifying losses should be used in determining classifications for OREOs and MBLs.
- OREOs which require fair value adjustments should be included in the Asset Classification.
- Examiners may include retail portfolios, or segments thereof, where credit management practices are deficient and high credit risk is present; an example includes OREO portfolios where management practices are deficient resulting in the entire portfolio classified as Substandard and/or Loss.
- Credit unions are expected to recognize losses identified in the classification process; losses should be recorded as soon as the institution is aware of the loss; however, in no case should the charge off exceed the terms outlined in the [Uniform Retail Classification and Account Management Policy](#). Identified losses should be incorporated in the review of the adequacy of the Allowance for Loan and Lease Losses.

In addition to retail credit classifications, the [Uniform Retail Classification and Account Management Policy](#) establishes guidelines for re-aging, extending, deferring, or rewriting past due accounts. Examiners should ensure policies and procedures comply with established standards.